JULY 19, 1982 TWO DOLLARS AND FIFTY CENTS

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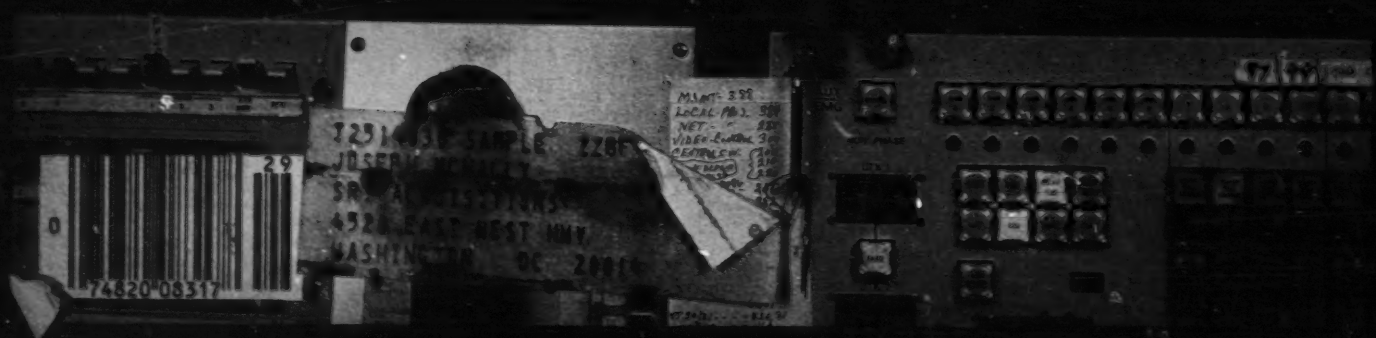
Forbes

ABC's LEONARD GOLDENSON

A SHREWD STRATEGY FOR STAYING ON TOP



July 19, 1982
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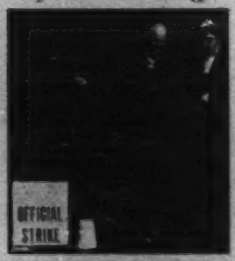

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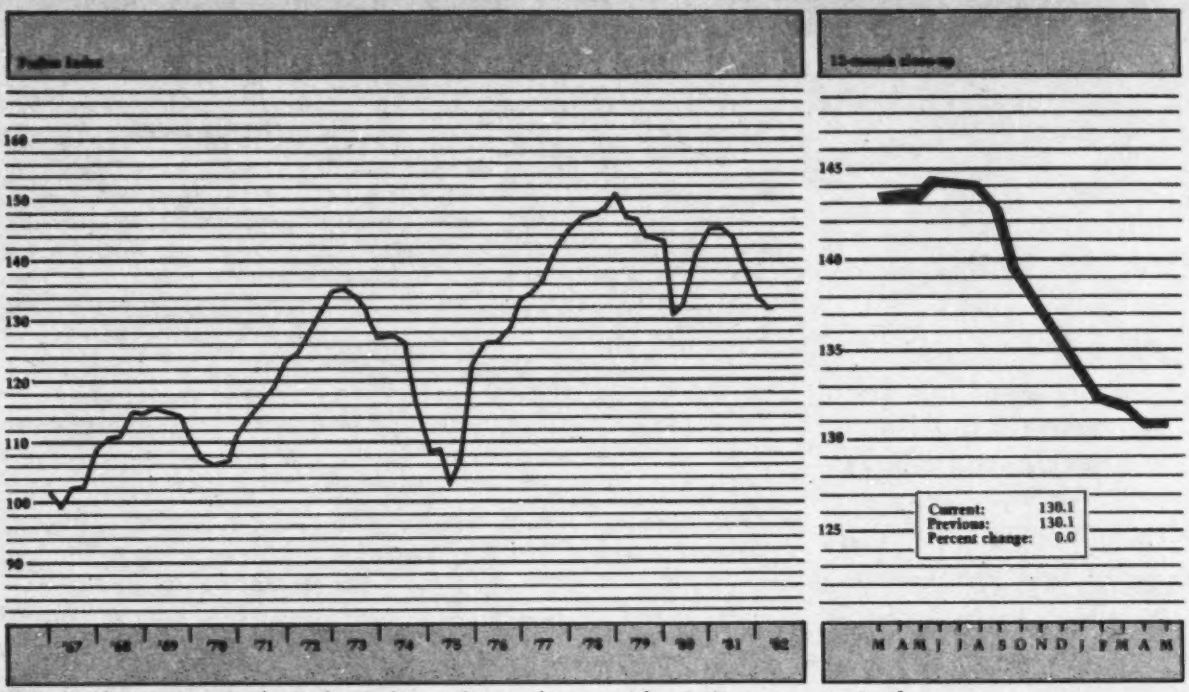
The Forbes Index



Slipping into neutral. The Forbes Index, ending its long skid, held its own during the most recent period. The good news is that personal income rose by 0.5%, while housing surged an unexpectedly high 18.1% in May.

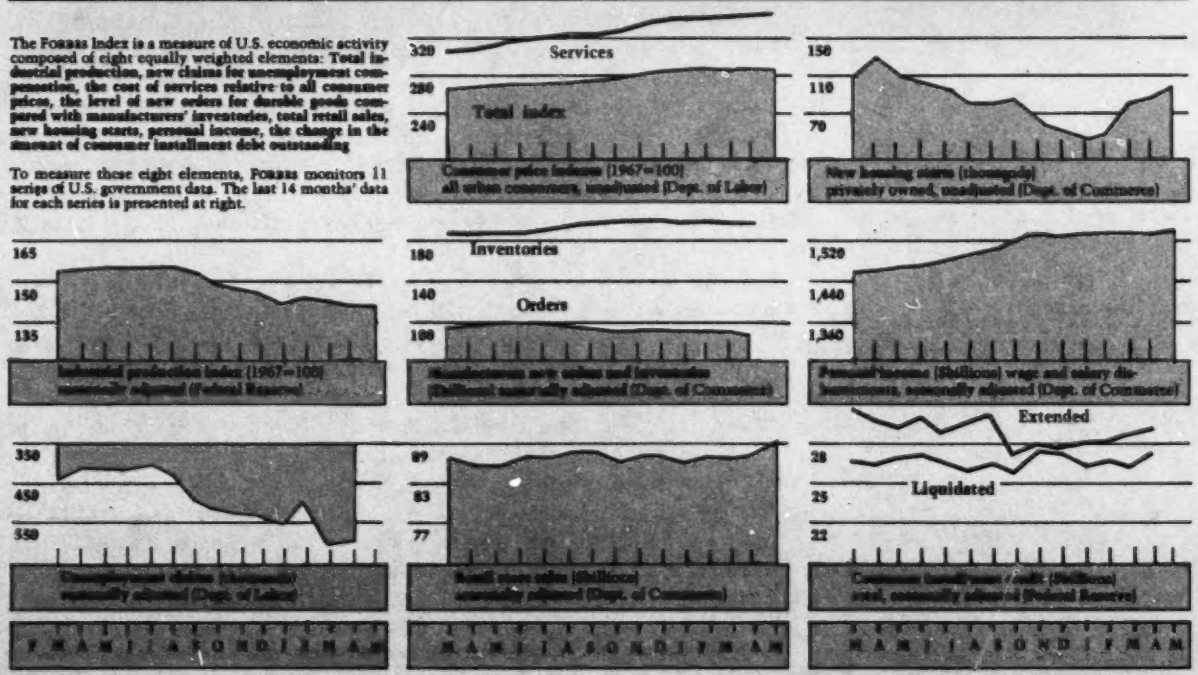
Offsetting those upbeat reports, however, were the numbers concerning industrial production and inflation. In May, industrial production was off 0.2%. Meanwhile, the Consumer Price Index rose a full 1%. That compares with a 0.4% increase in April.

The rise in inflation, tied mainly to rising food and gasoline prices, is only temporary. The big question now is: How much stimulus will be provided by the tax cuts and Social Security payout boosts scheduled to go into effect on July 1? If consumer spending does pick up significantly, as most economists expect, a sustainable but weak recovery will begin in the third quarter.

The Forbes Index Components

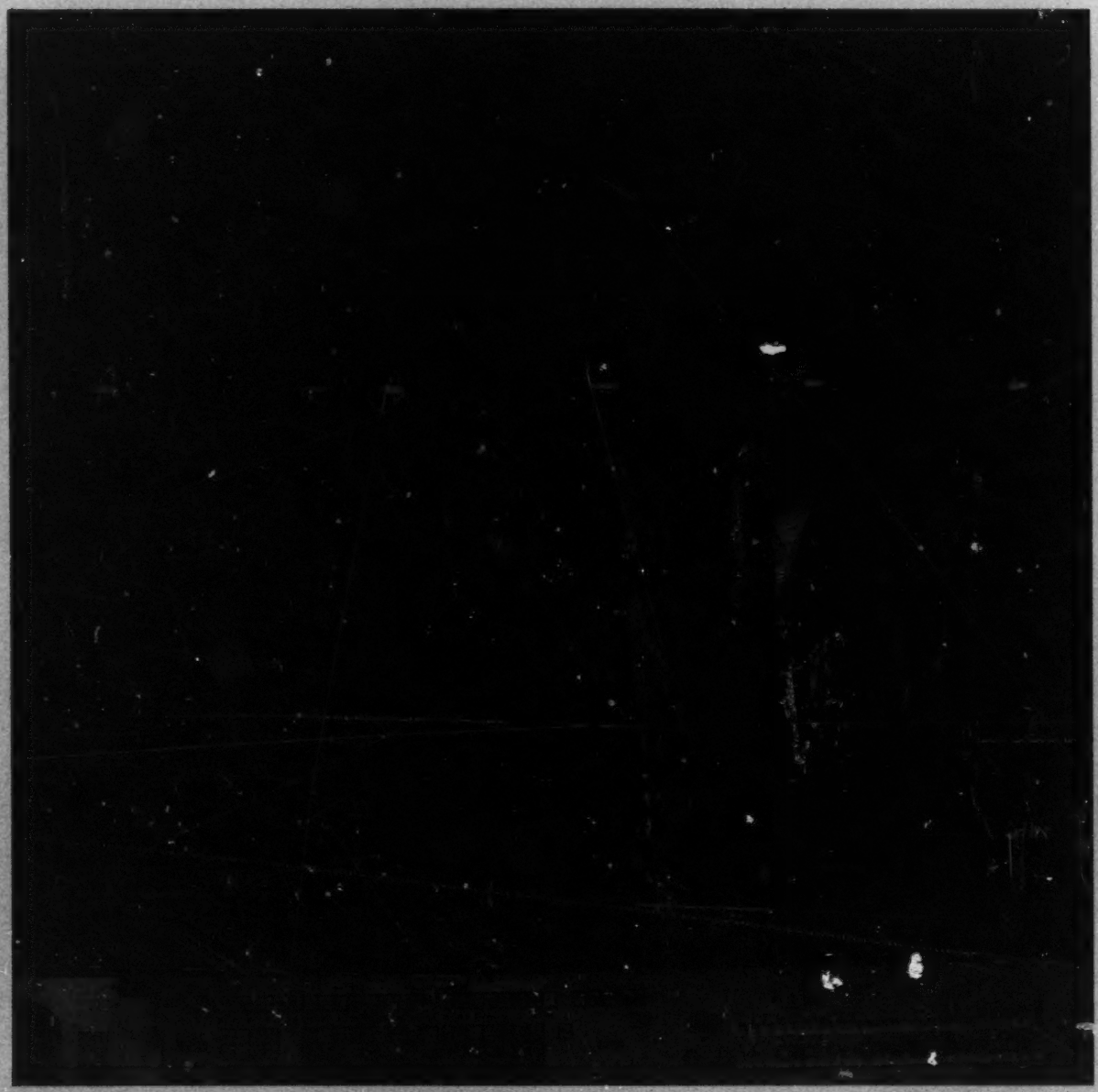
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



With the coming of the cable industry, few myths of American business have been as oversold as the demise of the TV networks. And the network whose obituary is the most premature is ABC.

Staying tuned to tomorrow



By Steven Flax

EVERYONE KNOWS that the days are numbered for the big TV networks. Cable TV and independent stations are slowly but surely stealing their audience. Last season the three networks' combined average prime-time share of market fell to a new low of 83%. And cable is still in its infancy. So much crepe has been hung on the networks lately that, by comparison, the airline industry's future looks downright rosy.

But the conventional wisdom exaggerates. While there is no question network television is in the midst of a major transition that will change the industry profoundly, there are three things a network can and must do to cope with the cable challenge. It must:

- Run a broadcast operation appealing enough to keep as large an audience as possible.
- Adjust its economics so that whatever diminution occurs in its broadcast audience, its profitability can be maintained.
- Invest in new technologies only to the extent warranted by reasonably expected returns.

One network gives promise of being successful at all three. That network belongs to $2.5 billion (sales) American Broadcasting Cos., Inc. Prime-time ratings notwithstanding (ABC came out four-tenths of a ratings point below CBS by the end of last season), ABC currently has the strongest program lineup in more different "day parts" on more days of the week. The demographics of ABC's audience still have the greatest appeal to advertisers. In addition, ABC, perhaps because of its past mistakes, seems best to have learned the lesson that a network can no longer count on yearly inflationary increases of 20% in advertisers' budgets. It has responded with sweeping cost-cutting measures that seem well designed to cope with declining revenue growth.

More important, ABC's strategy for coping with the cable challenge looks shrewder and more imaginative than the competition's.

Not for ABC videodiscs, wiring cities or grandiose movie-making ventures. When ABC moves, it moves cautiously and usually with someone else sharing the risks. It has teamed up with Getty to provide programming for its sports channel, with Westinghouse Broadcasting & Cable for two 24-hour news channels and with The Hearst Corp. for two ventures to develop cultural and women's service and information programming. That way ABC contributes its strengths as a programmer while keeping development investments low and operating costs under tighter control. ABC has also shown imagination in new ventures like the recently announced Home View Network, a potential rival for cable that requires only a fraction of the capital that cable requires.

Shed of some bungled and ill-fitting diversification, ABC remains the industry's purest broadcasting play, with over 85% of revenues coming from broadcasting, including the radio and TV networks and five owned-and-operated TV stations.

If there is any concern about over-concentration at ABC headquarters, you would never have known it from what went on at ABC's affiliates' meeting in May. To promote solidarity with its 208 stations' owners and managers—its distributors—the network spends about $1.5 million on these three-day extravaganzas held at Los Angeles' luxurious Century Plaza Hotel. While the affiliates dine on filet mignon and fine vintages, they get to rub elbows with Bette Davis, Robert Mitchum and the Fonz, and ABC makes sure that plenty of Polaroid pictures are taken of its station managers with the stars so they can show their friends back home in Tyler, Tex. or El Centro, Calif. Then the fall lineup is introduced in a multimedia spectacular.

Meanwhile, ABC's longest-running series—its cast of top executives—keeps working the crowd. There's handsome, tan, affable Elton Rule, 65, the image of a corporate president if you could order one up from central casting. Some say Rule's most important contribution was making it possible for Freddy Silverman and Roone Arledge to work in the same building for years without killing each other. There is Dick O'Leary, lapel-grabbing and bombastic, whose group of owned TV stations consistently outperforms those of other networks. Then there is Executive Vice President Fred Pierce, O'Leary's polar opposite. The network's designated heir, Pierce is as quiet as O'Leary is loud. But in his 26 years with the company, the methodical Pierce has succeeded at every position he has had: research, sales planning and programming. There's also Jackie Smith, vice president of daytime programming, who, as queen of ABC's soap operas, is a wiry bundle of corporate profitability.

But no one so typifies ABC as Julius Barnathan, president of broadcast operations and engineering. Barnathan, who guided the development of much of the broadcast technology ABC is famous for, like minicams and closed-captioned broadcasting for the deaf, has a penetrating mind housed in the fireplug-like body of a Mafia hit man. Bulldozing his way around the cocktail party, with sushi dangling from chopsticks in both hands, Barnathan becomes apoplectic when asked if new cable technologies will doom broadcasting. "There isn't enough programming, so what good is the technology?" he barks. "Now they

ABC's longest-running series

1. Leonard H. Goldenson
   Chairman of the Board and Chief Executive Officer
2. Elton H. Rule
   President
3. Frederick S. Pierce
   Executive Vice President
4. Herbert A. Granath
   President ABC Video Enterprises
5. Roone Arledge
   President ABC News and Sports
6. Julius Barnathan
   President ABC Broadcast Operations and Engineering
7. James E. Duffy
   President ABC Television Network
8. Richard A. O'Leary
   President ABC-owned Television Stations
9. Anthony D. Thomopoulos
   President ABC Entertainment
10. Bernard G. Hoberman
    President ABC Radio
11. Michael P. Mallardi
    Vice President and Chief Financial Officer
12. Everett H. Erlick
    Senior Vice President and General Counsel
13. Robert G. Burton
    President ABC Publishing
14. John C. Severino
    President ABC Television

can bomb on 100 channels instead of just 3. You want some sushi?"

But nothing they had seen at previous meetings prepared the affiliates for the surprise they got when Roone Arledge, 51, president of ABC News and Sports, strode to the podium to introduce his guest speaker. Arledge, the man responsible for foisting Howard Cosell upon an unsuspecting nation, stunned the affiliates when he produced President Ronald Reagan, live by satellite, for a private press conference with them. When Reagan's enormous image appeared Wizard of Oz-like on the auditorium's movie screen, a gasp of amazement went through the crowd. It didn't matter that the delighted affiliates' questions were like slow-pitch softball ("Mr. President, are you in favor of less regulation of broadcasting?"), or that the President didn't give an exactly straight answer to any of them. When Reagan's image disappeared as genie-like as it had come, they sat there spellbound. No amount of expensive junketeering could have matched the effect.

Presiding over this team is Leonard Goldenson, who began his entertainment career running movie theaters, and went on to preside over ABC's triumph in TV broadcasting. Goldenson has his critics: Why, they wonder, should a man of 76 cling so stubbornly to the title of chief executive. But Goldenson brings a valuable perspective to the business. The affiliates listen intently as he says: "When radio came, the record industry was doing $100 million of business and everybody thought it was ruined," he said. "Now, after years of using radio to promote records, the record industry's sales are around $3.5 billion a year." Nobody missed the analogy.

Behind Goldenson's rhetoric is a homely truth. Cable may be the wave of the future but right now it has only a limited amount of appealing new programming. One interesting straw in the wind: Some executives at Home Box Office, the country's most successful pay-cable movie program service, have privately acknowledged to FORBES sources that, in each of the last three months, the disconnect rate has been running alarmingly above normal. In any case, there is only a limited amount of money out there to pay for cable programming (FORBES, *May 24*). Furthermore, there are limits to how much different programming viewers will absorb even if they have paid for it.

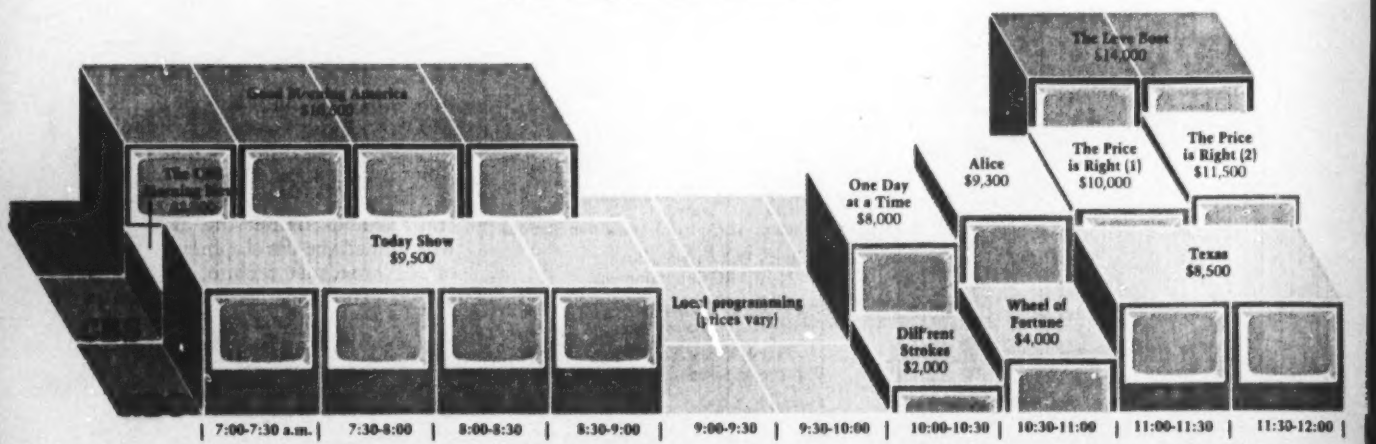
What about the threat ABC faces in its backyard, network TV, where CBS has been in first place in prime time for two years. By the end of the second half of last season ABC had cut CBS' lead to a hairbreadth 0.4 ratings points and had 13 of the top 30 series, compared with 12 for CBS and 5 for NBC. ABC also rallied with the two highest-rated new series premiering in 1982: *Joanie Loves Chachi* and *T.J. Hooker*. In addition, ABC's movies were highest rated—20.2 points, compared with 16.7 for CBS and 14.8 for NBC. Finally, ABC's *Monday Night Football* drew its largest audiences ever in 1981—over 27 million viewers.

But to understand ABC's real strength, one has to look a little deeper. Advertisers buy TV time based largely on the demographic makeup of the audience rather than just relying on ratings points. Whichever network is most cost effective at providing the audience desired by an advertiser is therefore the best buy.

In the case of most products that are advertised on TV, sponsors are looking for an audience of younger adults (18-to-49 years old) in urban/suburban counties. More advertising dollars are thrown at this group than at any other. According to studies by Nielsen and Simmons, ABC is the network most effective at reaching this audience.

When measured for its ability to reach this audience of adults 18 to 49 years old in prime time, ABC's performance last season improved dramatically. It won 29 of the half-hour time slots, compared with 13 for CBS and 2 for NBC. So even though last season was CBS' second year of regained prime-time ratings leadership and its commercials should have commanded a premium, ABC's sold at higher costs per thousands. As a result, ABC has the largest share (36.3%) of all prime-time advertising revenues.

Important as prime time is, the real earnings power of ABC's broadcast operations is in daytime TV. ABC's daytime schedule, including soap operas *Ryan's Hope, All My Children, One Life to Live, General Hospital* and *The Edge of Night*, has been number one in the ratings for 18 straight quarters. Over the last year, while CBS and NBC suffered declines in ratings, ABC registered increases to the point where its percentage of the vital 18-to-49-year-old female audience was greater than the other networks' combined. Its soaps often outdrew shows in prime time.



Love and money in the afternoon

ABC's commanding lead in daytime ratings turns directly into cash. The dollar amounts under the program titles in this chart are the average prices each network charged for a

Because of its commanding lead in the Monday-to-Friday daytime schedule, ABC controls more than 50% of all network daytime advertising dollars. That is not as much revenue as prime-time programming provides, since an average 30-second prime-time commercial fetches $75,000, compared with $16,000 for daytime. But more of that revenue is clear profit because daytime programming is so much cheaper to produce. A half-hour prime-time show can cost $350,000. For the same money ABC can produce a full week of hour-long episodes of a soap opera. So daytime shows, including its *Good Morning America* show, which last season increased its lead over NBC's perennially top-rated *Today Show*, are twice as profitable as prime time for ABC.

A contributing strength is that ABC owns and produces four out of five of its soaps. The other networks have long licensed some of theirs from Procter & Gamble under agreements that lead them to grant favorable rates to P&G for its commercials. This limits the revenues CBS and NBC can get from daytime TV.

Roone Arledge's News and Sports division is also on the upswing. ABC Sports registered the four highest-rated sports series this year, and big-ticket items like the 1984 Olympics are already starting to pay off. To recoup rights and production costs amounting to a whopping $452 million for the games, ABC is charging half a million dollars a minute for prime-time commercials. With a little over 75% of its commercials sold, the network is approaching the break-even point and is on its way to roughly $80 million in profits.

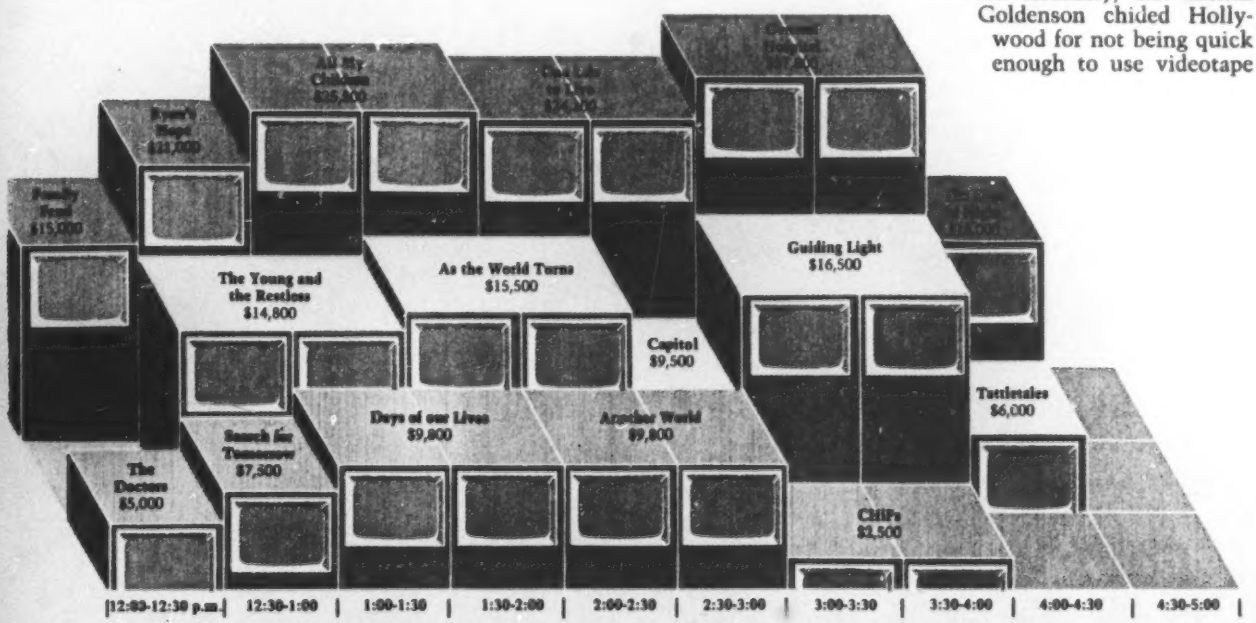
News, under Arledge's guidance, has turned around smartly. When Arledge took over in June 1977, ABC News' all-important evening show, anchored by the mismatched and fractious Harry Reasoner and Barbara Walters, had an 18% share. CBS News with Walter Cronkite had 30%, and NBC News with John Chancellor had 26%. Today, using an innovative three-anchor style, ABC is neck-and-neck with CBS for the network news ratings leadership and NBC is third.

All this has made ABC the largest advertising medium in the world: In 1981 its gross revenues of $2 billion were higher than those of any other network or publication. Unfortunately, until recently, ABC didn't have profit margins to match. In its intense drive for an additional ratings point or two, ABC allowed costs to skyrocket during 1976-81. With the exception of 1979, revenue growth decelerated every year after 1977, while costs grew faster almost every year.

As the ratings war heated up during 1976-81, the competition for prospective series grew to insane proportions. The networks began granting "relief" (compensation for production-cost overruns) almost as a rule, rather than forcing producers to live within their budgets. Salaries demanded by actors and writers were bid up. In one famous example, actress Suzanne Somers of ABC's *Three's Company*, in the fourth year of a five-year contract, demanded that her salary per episode be raised from $35,000 to $105,000.

That did it! Even though *Three's Company* was a hit and Somers its star, with her face on practically every magazine cover in America, the show's producer, NRW Co., turned her down and ABC made the rejection stick. ABC then started up a network-wide cost control program. "You had to lose individuals or programs to change the psyche of the creative community," says head programmer Tony Thomopoulos, president of ABC Entertainment: "We learned that in 90% of the cases we can afford to lose the [prospective new] show."

ABC also began putting the arm on its suppliers to work cheaper. Seeing that cable services like HBO were eroding the ratings ABC got for showing feature films, Goldenson went to the West Coast and told the studios bluntly that their films were no longer as valuable to him and that he was no longer going to bid as much for them. The other networks followed suit. Similarly, last month Goldenson chided Hollywood for not being quick enough to use videotape



30-second commercial during that show in the second quarter of 1982. Advertisers pay networks based on their share of audience. Thus, as ABC's share increases, its commercials command an increasing premium. What other networks can charge must fall proportionately, since their audience share decreases as ABC's grows.

and high-definition television technologies to produce films more cheaply. "Today we can shoot a half-hour prime-time comedy on tape for approximately $50,000 less per episode than we can shoot it on film," he says.

Such cost control was never more important than it is now. Advertising budgets are not growing as they used to. Among the 100-or-so large TV network advertisers who buy "upfront" (make advance commitments for) prime time, budgets are running just 14% above last year's. Moreover, as the networks gradually lose audience share to cable TV and independent stations, smaller shares of those slower-growing budgets will flow to them.

To compensate for the loss of revenues growth, ABC will have to generate supplemental income from new technologies. But the people who run ABC are determined not to be carried away with the new technologies and allow them to undercut ABC's hard-earned profitability.

In keeping with its newly raised cost consciousness, ABC is going about the ventures in a cost-effective way. Rather than spending $600,000 to film a command performance of Luciano Pavarotti, the famous tenor, at Carnegie Hall, ABC chose to buy the rights for ARTS, its cultural cable channel, to the same Pavarotti program previously filmed at La Scala for around $10,000.

Herb Granath, president of ABC Video Enterprises, is taking the same cautious tack ABC took 21 years ago in developing *Wide World of Sports*, which went on to become the number one rated year-round sports program on TV. Granath points out that presently there are so many channels to fill on cable, that many cable system operators are more interested in getting *more* programming than in getting the finest. "Achieving a major programming success is a lower priority for us than for our competitors," he says. "Cost control is much higher on our list of priorities."

The result: ABC's development losses in 1982 will probably be only one-third those of CBS' losses of about $60 million. The comparison may be even more favorable. ABC pays for these development costs out of earnings. CBS is capitalizing an undisclosed portion of its losses.

Because ABC has carefully kept the development burden manageable, its investment in new ventures can all be funded internally. It hasn't had to touch its bank credit lines or look outside for loans, as has CBS. Indeed, ABC's working capital grew almost $88 million in 1981, to $597 million; it had over 20% of its current assets—$194 million—in cash and marketable securities as 1982 started, and an enviable debt-equity ratio of 0.18.

Perhaps ABC's most interesting new venture is a recently announced national program distribution service called the Home View Network. HVN offers movies, sports, concerts, children's programming and, perhaps, legitimate theater, in a way that combines broadcast and videocassette technology. ABC's affiliates will transmit HVN's programming to videocassette recorder (VCR)-owning subscribers in their markets in a scrambled form during the middle of the night. Those subscribers set their machines to automatically record the encoded programs while they sleep and then play them back whenever they choose. When they become subscribers (for about $20 a month), a special decoder is connected between their VCR and television, allowing them to see the programming. Since the tape is in scrambled form, it can't be duplicated or shared with other VCR owners, so copyright is preserved. Because of this feature, movie companies are making their films available to HVN months before they release them to pay cable services. For the (now) approximately 4 million VCR owners, this form of electronic distribution of recorded video will be cheaper and much more convenient than going to stores to rent or buy tapes.

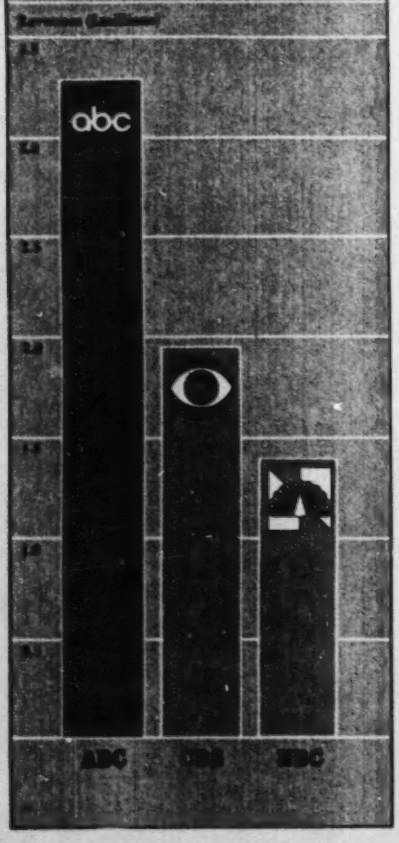
Unlike cable, HVN doesn't freeze out ABC's affiliated stations. Because the programs are encoded onto videotape before transmission, the affiliates won't have to modify their equipment. They will be able to broadcast HVN programs the same way they do other network shows. ABC will handle all the marketing and programming for the affiliates, asking only that they help with the advertising. In return, the affiliates will get network compensation for operating in a time period that never brought them revenues before. In the past, whenever a network announced some new cable venture, its affiliates grumbled that it was only worsening the competition they were facing in their home markets. Now, alone among the networks, ABC has figured out a way that allows its affiliates to participate with it in the new technologies.

The investment in HVN will be small because it uses ABC's existing distribution network and the VCRs purchased by others. So most costs of the system to ABC are variable. In fact, ABC's developing of HVN is like developing a cable system with all the trunk and feeder lines already in place. Compare that with CBS, which is paying for all the hardware of its operating cable system in Dallas, Tex.

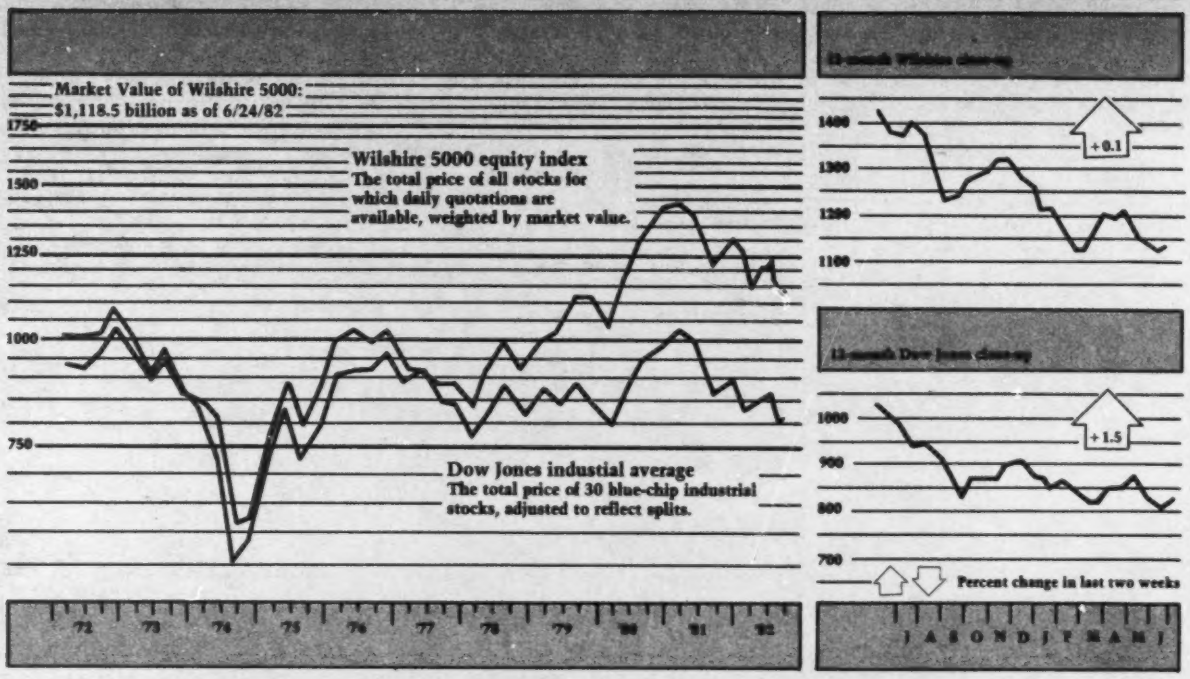
But perhaps ABC's greatest asset is its hardheaded view of what business it is in: *entertainment*. ABC executives don't view the company chiefly as a network broadcaster, nor are they intoxicated with the shining new technologies. They recognize network and the technologies for what they are in the entertainment scheme of things: distribution channels. An ABC executive puts it very well: "Anyone with programming has to use all available channels of distribution." Even if, as in the case of HVN, ABC has to invent an entirely new one. ■

Daytime leverage

Commercial time costs more at night because the audiences are bigger. But the networks run twice as many "spots" by day—twelve 30-second units each half hour—so higher prices fetched by higher ratings are powerfully leveraged. Below, that leverage at work if all the networks sold all their time at top prices.



The Forbes/Wilshire 5000 Review



Black and blue. If you choose your indicators carefully, the market was barely in the black over the last two weeks. The Wilshire index, a measure of overall investment activity, is ahead by a mere 0.1%. The 30-stock Dow industrials, meanwhile, shows a 1.5% gain. The NYSE index and the S&P's 500 also eked out 0.2% advances. But Amex and NASDAQ stocks were unable to share in these meager gains. The average American Stock Exchange issue fell by 0.3% and o-t-c stocks lost 0.1%. During the last month the Amex dropped 4.5%, and for the year it is off by 32.2%. On the other hand, the Wilshire shows a 4-week decline of 2.9% and a 52-week decline of 20%.

Over the last two weeks, all the market focus groups were off more than the market. A close look at the data, however, indicates that investors seem to be selling off more at the market edges, while holding on to middle-of-the-road securities. There was a slightly stronger move, for example, away from more speculative securities, such as high volatility and high P/E stocks, than from their more conservative counterparts. This trend, though it seems to be abating slightly, has persisted for several weeks. It could mark the consolidation phase of a bear-market bottom.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–2.9	–1.8	–2.7	–4.5	–4.1
in last 52 weeks	–20.0	–18.7	–18.1	–32.2	–22.0

Stock performance based on five key investor guidelines

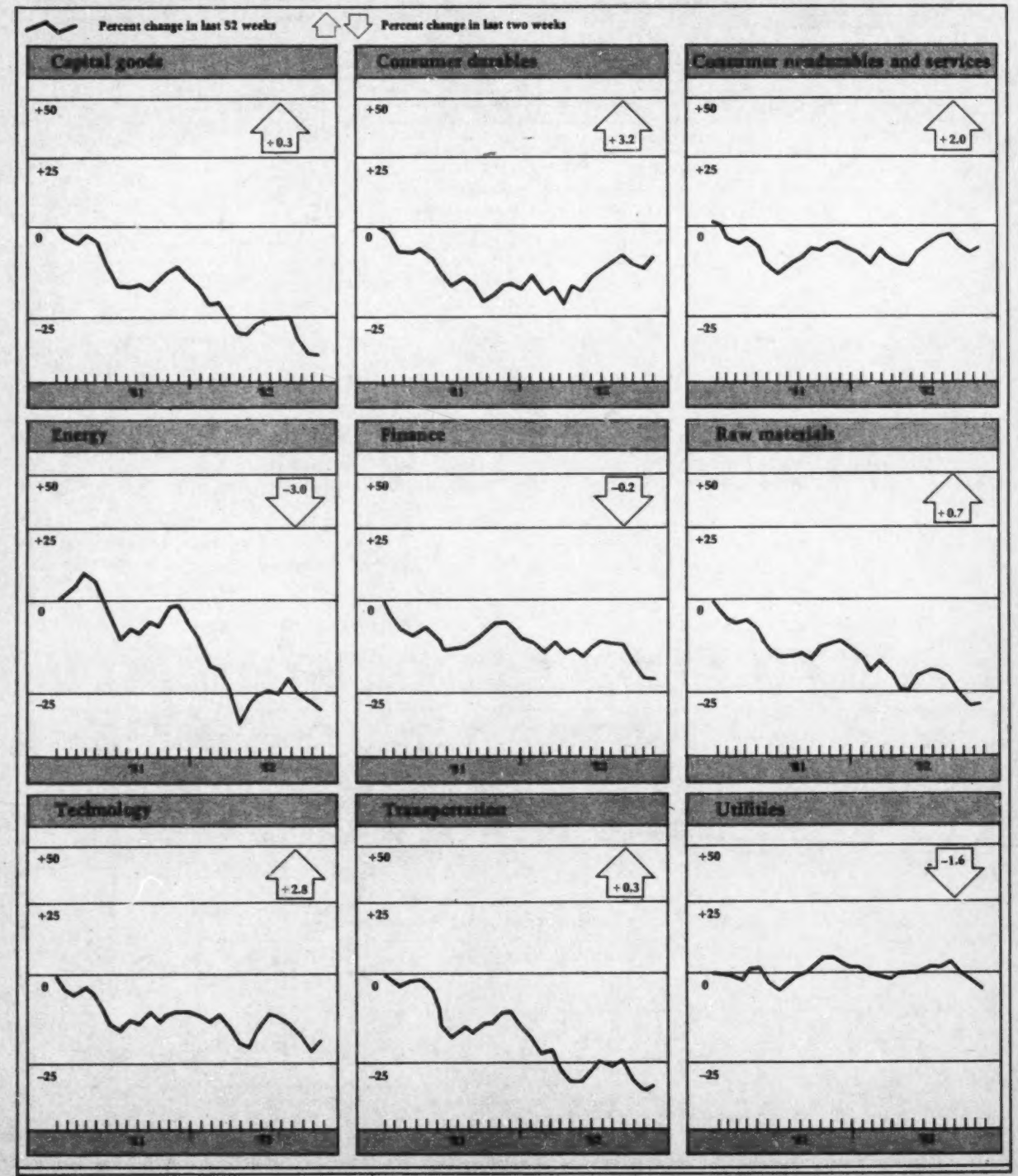
Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $6
in last 4 weeks	–3.9	–2.5	–5.7	–3.0	–2.6	–2.6	–3.0	–2.1	–3.0	–4.7
in last 52 weeks	–21.4	–1.7	–29.1	–9.5	–4.4	–14.9	–17.9	–8.4	–18.5	–19.1

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/24/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Two bad apples. The market barely made it into the positive territory over the last two weeks, but it wasn't due to poor performance from the technology or consumer sectors. Technology issues advanced 2.8%, while consumer durables were up 3.2%. Consumer nondurables and services, meanwhile, gained 2%. Raw materials, capital goods and transportation stocks all stayed ahead, too, though with gains of less than 1%.

Once again, however, energy stocks helped to drag the averages down. While finance stocks lost 0.2% in the two-week period, greater damage came from the energy sector, which was off 3%. Utility stocks also did their share to hold the market back, with a 1.6% decline. Throughout the winter these defensive issues were a major area of strength. But this group's performance over the last 52 weeks is now several percentage points in the red.



Note: All data for periods ending 6/24/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Statistical Spotlight

Over 1,200 corporations are running in the red. Some will not survive. Some others are bull-market long shots.

Reds II

By Steve Kichen

BACK IN 1980, we put together a list of 90 moneylosing firms under the headline "Red doesn't mean dead" (FORBES, *Sept. 29, 1980*). Since then, red became dead for many on that list. Others are still alive, but still losing. And a few became superstar performers.

Now, with more than 1,200 U.S. corporations showing red ink, here's a new list of these long, long shots—50 nonfinancial companies that lost at least $5 million in 1981 on sales of $50 million or more.

This is no game for the fainthearted. Check the update of the 1980 list on page 103 to see how scary it really is. Of the original 90 firms, 8 have since filed for bankruptcy. And 15 are repeat performers on the losers list this time. Investors lost 90% or more of their money on Braniff International, Seatrain Lines, Wilson Freight and Combustion Equipment, all now bankrupt. Other companies, such as International Harvester, off 89%, now teeter on the brink. Only 20 stocks gained 25% or more.

The turnaround stars? Soundesign, up 172%; M. Lowenstein, up 167%; Sheller-Globe, 104%; American Airlines, 92%. There were also 12 mergers, takeovers or buyouts by management. Elixir Industries, for example, went private, buying out its shareholders at a gain of 142%.

Perhaps the most interesting number of all, though, is what happened to the *overall* list. An investment of $1,000 in each of the 90 stocks in 1980 would now total $82,796, or a decline of 8%—almost exactly the decline in the S&P's over the same period. If a portfolio of down-and-outers can keep pace with the market under less-than-ideal conditions, then what are the prospects for these companies in better times? That's what keeps speculative investors licking their chops. ■

An un-nifty fifty

The 50 firms below—all with sales of over $50 million—lost a total of $3.4 billion in 1981, and the red ink continues to flow. No doubt the list contains some of tomorrow's turnarounds, but it also contains some potential obituary items. Almost all of them are selling at a fraction of book value.

Company/*business*	Recent price	1981 sales (millions)	1981 loss (millions)	Earnings per share—latest 12 months	Earnings per share—1981	Book value per share	Book/price
Ford Motor/*automobile*	23	$38,247.1	$–1,060.1	$ –8.11	$ –8.81	$61.06	2.65
Chrysler/*automobile*	6½	10,821.6	–475.6	–3.15	–10.31	d	NM
Intl Harvester/*agricultural equip*	3½	7,040.9	–393.1	–30.19	–8.64	39.76	11.36
Great A&P Tea/*grocery stores*	6	6,226.8	–231.6	–6.19	–6.19	8.08	1.35
Massey-Ferguson/*agricultural equip*	1⅞	2,054.1	–151.2	–4.56	–10.71	4.03	2.15
American Motors/*automobile*	3¼	2,588.9	–136.6	–2.45	–2.44	4.73	1.46
UAL/*airline*	16½	514.1	–70.5	–6.05	0.91	36.94	2.24
Western Air Lines/*airline*	5¼	1,059.8	–69.4	–6.21	–5.51	7.59	1.45
Eastern Air Lines/*airline*	5⅝	3,727.1	–65.9	–5.67	–3.44	13.79	2.45
Continental Air Lines/*airline*	3⅞	1,090.8	–60.4	–3.75	–3.92	8.50	2.19
KDT Inds/*retail*	1½	741.4	–52.1	–7.09	–7.09	3.71	2.47
Texas Air/*airline*	5⅞	719.4	–47.2	–13.17	–8.11	6.73	1.15
Republic Airlines/*airline*	4⅛	1,448.4	–46.3	–2.63	–1.91	3.28	0.80
Adams Res & Energy/*oil & gas*	3⅝	234.0	–39.1	–6.54	–6.78	d	NM
Ramada Inns/*hotels, casinos*	4⅝	415.9	–30.5	–1.45	–1.12	6.03	1.30
Allis-Chalmers/*agricultural equip*	12½	2,041.8	–28.8	–1.67	–2.86	44.57	3.57
Fuqua Inds/*multicompany*	16½	706.7	–28.2	–2.00	–2.26	3.15	0.19
Bird & Son/*building materials*	6½	276.6	–27.1	–7.94	–3.87	18.36	2.82
Centronics Data Comp/*computer equip*	9⅝	120.8	–24.5	–3.00	–4.08	7.81	0.81
Meats Machine/*machinery*	3½	116.2	–24.3	–23.31	–24.60	9.31	2.66
Publicker Inds/*distilling*	1¾	167.1	–24.0	–2.91	–1.44	5.89	3.37
Pabst Brewing/*brewing*	20⅜	691.9	–23.5	–2.47	–2.88	29.31	1.44
MacMillan Bloedel/*paper & forest prods*	15	1,715.2	–20.7	–2.34	–1.51	26.37	1.76
World Airways/*airline*	2⅝	371.0	–20.2	–3.08	–2.06	NA	NA
Gen Refractories/*firebrick for steel ind*	3	409.8	–19.0	–5.55	–5.01	22.04	7.35

d: Deficit. NA: Not available. NM: Not meaningful.

Sources: Wilshire Associates; Standard & Poor's; FORBES

Company/*business*	Recent price	1981 sales (millions)	1981 loss (millions)	Earnings per share latest 12 months	Earnings per share 1981	Book value per share	Book/price
Pan Am World Airways/*airline*	3½	$3,797.3	$–18.2	$–3.57	$–3.70	$11.05	3.16
Outlet Co/*broadcasting*	29¾	75.9	–18.0	–5.91	–6.76	d	NM
Filmways/*entertainment*	5⅝	94.6	–16.7	–2.59	–2.59	NA	NA
Tiger Intl/*airline*	7½	1,673.4	–16.6	–3.03	–0.98	19.17	2.56
Alpha Portland Inds/*cement*	12½	246.7	–16.3	–9.31	–9.31	22.25	1.78
Toro/*appliances*	5¾	247.1	–13.1	–2.69	–2.66	9.71	1.69
Shapell Inds/*building*	21	180.3	–11.6	–7.28	–5.89	52.08	2.48
Certain-teed/*building materials*	10⅞	891.5	–10.9	–1.82	–1.14	19.67	1.81
Pantry Pride/*grocery stores*	4¾	1,225.3	–10.6	–1.89	–1.39	d	NM
Rath Packing/*food processing*	⅞	465.4	–9.6	–3.32	–4.93	d	NM
Lamson & Sessions/*railroad equip, auto pts*	3¼	216.0	–9.0	–2.35	–1.71	8.64	2.66
Hudson Bay Mng & Smltg/*metals, oil & gas*	10⅞	326.0	–8.4	–2.74	–0.82	24.23	2.23
Recognition Equip/*information process sys*	4¼	131.5	–8.2	–3.89	–1.34	8.79	2.07
Kay Corp/*import & exp, retail jewelry*	9¼	644.3	–7.7	–2.52	–2.16	6.91	0.75
Munsingwear/*apparel*	13	131.2	–6.3	–4.25	–2.71	21.24	1.63
United Merchants & Mfrs/*apparel*	5⅞	669.6	–6.3	–2.75	–1.71	9.66	1.64
Basco/*specialty retail*	4½	130.7	–6.2	–6.81	–6.38	1.79	0.40
McIntyre Mines/*coal*	20¼	108.9	–6.1	–4.84	0.02	61.92	3.06
Driver Harris/*metals*	8¾	70.0	–6.0	–9.41	–10.23	NA	NA
Edward Hines Lumber/*building materials*	17½	264.9	–5.8	–6.48	–3.30	40.95	2.34
Instrument Systems/*electronics, hardware*	1⅜	114.0	–5.6	–2.22	–1.67	1.88	1.37
Wurlitzer/*musical instruments*	3¾	74.4	–5.5	–3.10	–3.10	12.53	3.34
Fedders/*climate-control equip*	3⅛	156.8	–5.4	–1.66	–0.66	d	NM
Roblin Inds/*building materials*	1¼	110.7	–5.4	–3.33	–2.24	1.41	1.13
Superscope/*consumer electronics*	2⅜	56.2	–5.2	–2.33	–2.27	7.73	3.25

d: Deficit. NA: Not available. NM: Not meaningful.

Sources: Wilshire Associates; Standard & Poor's; FORBES

Ashes and diamonds

Here's what happened to the stock prices of FORBES' first "Red isn't dead" list of 90 moneylosing companies September 1980.

Company	% change in price	Company	% change in price	Company	% change in price
American Airlines	92%	Fotomat	–33%	Roblin Industries	–78%
American Biltrite	5	Gateway Transportation[2]	37	Ronson	–24
American Motors	–40	Gino's[2]	71	Salem Carpet Mills	–25
Arctic Enterprises[1]	–50	Goldblatt Brothers[1]	–89	Sambo's Restaurants[1]	–67
Bibb	45	Great A&P	–10	F&M Schaefer[2]	56
Bobbie Brooks[1]	–66	Hayes-Albion	–35	Seatrain Lines[1]	–96
Braniff Intl[1]	–90	Edward Hines Lumber	6	Sheller-Globe	104
Cagle's	–48	Instrument Systems[4]	–85	Soundesign[2]	172
Champion Home Bldrs	120	Intl Foodservice[2]	–64	Spector Industries[2,5]	–80
Chrysler	–28	Intl Harvester	–89	Standard Products	15
City Stores	–27	Itel[1]	–65	Superscope	–62
Coachmen Inds	35	Keystone Consolidated	4	Susquehanna	–7
Combustion Equipment[1]	–100	KLM	1	Talley Inds	–23
Commonwealth Oil	–92	Laclede Steel	–17	Texfi	–45
Continental Air Lines	–52	M Lowenstein	167	Trans World Corp	8
Culbro	166	Manhattan Industries	89	Tyson	10
Dayton Malleable	–34	CH Masland	–13	UAL	–18
Ehrenreich Photo-Opt[2]	24	Massey-Ferguson	–74	UNC Resources	–66
Elixir Industries[3]	142	McLean Trucking[2]	55	Uniroyal	67
Envirotech[2]	1	McLouth Steel	–79	US Steel	–19
Facet Enterprises	5	Memorex[2]	–10	Valmac Industries	–14
Fedders	–18	Monfort of Colorado	44	Victoria Station	–16
Filmways	–32	National Kinney	–29	Vornado	–34
Firestone	54	Orange-co	0	Ward Foods[2]	22
First Pennsylvania	–39	Ozark Airlines	71	Westmoreland Coal	–24
Fischer & Porter	–37	Pan Am World Airways	–38	White Motor	–95
Fleetwood Enterprises	91	Penn-Dixie Industries	–79	Wilson Freight[2]	–100
Food Fair (Pantry Pride)	65	Raybestos-Manhattan	–47	Winnebago Inds	117
Foodarama	0	Republic Airlines	–49	World Airways	–48
Ford Motor	–19	Robintech	–61	WTC	–7

[1]Company filed for bankruptcy within period 9/80 to present. [2]Company merged or acquired within period 9/80 to present. [3]Company went private. [4]Reverse 1/10 split in 1981. [5]Spector division of TeleCom filed Chapter 11 in 1981.

At the present time, wheat and corn can be traded by taking advantage of their widely different harvest times.

WHEN IT'S IN THE BIN

By Stanley W. Angrist

Based on crop conditions as of June 1, the harvest should be an exceedingly bountiful one. (Of course, much can happen between now and when the crops are in the bin.) For us eaters, that is good news indeed. For American farmers, who have pulled in several successive excellent crops, it's not such great news. It all depends on your point of view.

The U.S. Department of Agriculture estimated the winter wheat crop at 2.13 billion bushels, 2% above the previous record crop of 2.10 billion bushels harvested last year. Despite large shipments in the final two months of the old crop season, exports fell short of the USDA's estimate, and final stocks increased about 17%. June 1 stocks of wheat are at near-record levels. One can add to that sobering fact that other wheat-exporting nations of the world—namely Canada, Australia and Argentina—have rather grandiose planting intentions.

The demand side of the equation is just about as gloomy. Demand is being pressured by a global recession and high U.S. interest rates, which are producing a strong dollar. The strong dollar in turn makes our exports dear. Potential demand from the Soviet Union is minimal as they await the outcome from their crop. Moreover, they have purchased wheat from other exporting nations, leaving the U.S. as a residual supplier. The tight credit policy instituted by the Administration toward the U.S.S.R. adds to the bleak picture for exports to that country. It is well to bear in mind that in the 1981-82 marketing year, the Soviets purchased 250 million bushels of hard red winter wheat (HRW). This was 33% of total U.S. HRW exports and 14% of total U.S. wheat shipments. The new season began June 1, and Russia has yet to purchase any of our wheat for shipment this marketing year.

If you think the fundamentals for wheat are bad, you will find that there is not much solace to be derived from the prospects for corn. But most observers feel that the total acreage planted to corn will fall far short of the February planting intentions of 84.7 million acres.

Recent quarterly reports on corn stocks have been encouraging from a couple of points of view. It appears that domestic feed usage has increased about 7% from a year ago, even though overall U.S. animal numbers are down. What's more, corn exports in the last couple of months have averaged close to 50 million bushels a week. This pace cannot be maintained unless forward sales of corn increase. Stocks of corn on June 1 stood at a record 3.8 billion bushels.

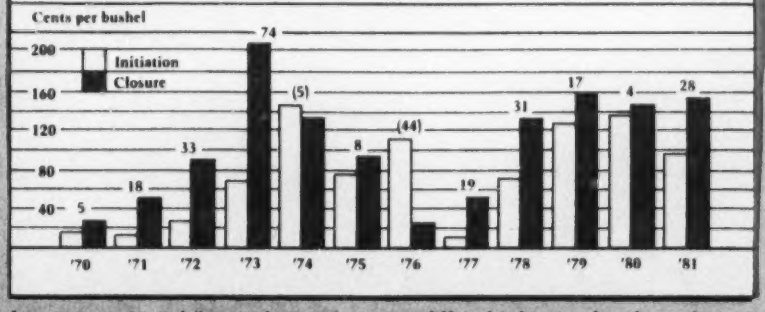
These fundamentals may be traded by taking advantage of the different harvest periods for wheat and corn. The greatest pressure in the wheat market comes in early July, as the winter wheat harvest ends. The greatest pressure in the corn market comes in the fall, as the corn harvest is being completed. This leads one to examine a spread of long December wheat/short December corn.

Shearson/American Express noted in a recent report that during the period 1970-81 the spread made its low in 9 of the 12 years by the middle of July. As the chart shows, the spread has had some unusually profitable years and only 2 losers out of 12. I would try to do this spread with wheat carrying no more than a $1.05 premium to corn. I would look for the spread to widen about 50 cents ($2,500 per spread), risking no more than 20 cents ($1,000) from my entry level.

Margin on this spread is about $1,200, while the round-turn commission is about $100. ■

Harvesting the difference

When a spread is profitable 10 out of 12 years, then it's always worth a second look. And this spread seems to be most profitable when put on after June 11 and taken off before Nov. 12. Colored bars are the average spread difference at initiation; grey bars are the average spread difference on closure. Numbers over the bars are the profit or (loss) in hundreds of dollars for that year.



Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.